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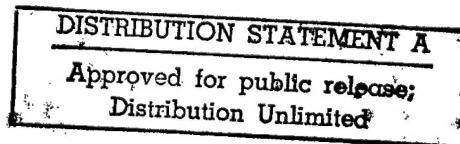
## Major Management Challenges and Program Risks

Department of Defense



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**Comptroller General  
of the United States**

January 1999

The President of the Senate  
The Speaker of the House of Representatives

This report addresses the major performance and management challenges confronting the Department of Defense (DOD). Taken together, these challenges, if not addressed, can adversely affect the Department's operational effectiveness. The report also addresses corrective actions that DOD has taken or initiated on these issues—including DOD's blueprint for a strategy-based, balanced, and affordable defense program as outlined in the May 1997 Report of the Quadrennial Defense Review and the reforms described in its November 1997 Defense Reform Initiative Report—and further actions that are needed. For many years, we have reported significant management problems at DOD. These problems can be categorized into two areas: (1) systemic management challenges dealing with financial management, information management, weapon systems acquisition, and contract management; and (2) program management challenges dealing with infrastructure, inventory management, and personnel. These problems cut across DOD's program areas.

DOD has implemented a number of Departmentwide reform initiatives that are intended to improve its financial management, information management, and weapon systems acquisition processes along with other key business practices. Despite DOD's military successes,

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many of DOD's programs and operations are still vulnerable to fraud, waste, abuse, and mismanagement, and need improvement. Overcoming these challenges requires DOD to address their underlying causes, such as cultural barriers and service parochialism that limit opportunities for change and—in some cases—the lack of clear, results-oriented goals and performance measures. Successfully addressing these challenges can improve the efficiency of DOD's operations and yield fiscal dividends that DOD could use to meet important priorities, such as military readiness and modernization needs. Many of the management challenges, which we reported in 1995 and 1997, place the integrity and accountability of DOD's programs at high risk.

This report is part of a special series entitled the Performance and Accountability Series: Major Management Challenges and Program Risks. The series contains separate reports on 20 agencies—one on each of the cabinet departments and on most major independent agencies as well as the U. S. Postal Service. The series also includes a governmentwide report that draws from the agency-specific reports to identify the performance and management challenges requiring attention across the federal government. As a companion volume to this series, GAO is issuing an update to those government operations and programs that its work has identified as "high risk" because of their greater vulnerabilities to waste, fraud, abuse, and mismanagement. High-risk government operations are also identified and discussed

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in detail in the appropriate performance and accountability series agency reports.

The performance and accountability series was done at the request of the Majority Leader of the House of Representatives, Dick Armey; the Chairman of the House Government Reform Committee, Dan Burton; the Chairman of the House Budget Committee, John Kasich; the Chairman of the Senate Committee on Governmental Affairs, Fred Thompson; the Chairman of the Senate Budget Committee, Pete Domenici; and Senator Larry Craig. The series was subsequently cosponsored by the Ranking Minority Member of the House Government Reform Committee, Henry A. Waxman; the Ranking Minority Member, Subcommittee on Government Management, Information and Technology, House Government Reform Committee, Dennis J. Kucinich; Senator Joseph I. Lieberman; and Senator Carl Levin.

Copies of this report series are being sent to the President, the congressional leadership, all other Members of the Congress, the Director of the Office of Management and Budget, the Secretary of Defense, and the heads of other major departments and agencies.

A handwritten signature in black ink, appearing to read "D M: Walker".

David M. Walker  
Comptroller General of  
the United States

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## Contents

Overview	6
Major Performance and Management Issues	12
Related GAO Products	66
Performance and Accountability Series	72



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## Overview

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Managing and overseeing over \$1 trillion in assets and a budget of over \$250 billion annually, or about one-half of the government's discretionary funding, is an enormous task. As the United States begins the new millennium as the world's sole superpower, it continues to lead the world with superior military forces. The effectiveness of U.S. forces is well evidenced by experiences in the Persian Gulf and Bosnia. Also, the Department of Defense (DOD) has implemented a number of Departmentwide reform initiatives that are intended to improve its financial management, information management, and defense weapon systems acquisition processes and other key business practices. However, DOD still faces challenges with many of its key performance and management processes.

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### The Challenges

Despite DOD's successes, many of DOD's programs and operations are still vulnerable to fraud, waste, abuse, and mismanagement. The Congress has held oversight hearings and enacted specific legislative initiatives to improve the economy and efficiency of DOD's operations and the Department has acted on congressional direction and suggestions for improvement. However, as noted in our

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## **Overview**

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report and reports of DOD's Inspector General (IG), many of DOD's key management processes need improvement. Successfully addressing these challenges can yield fiscal dividends that the Department could use to meet priorities such as readiness and modernization needs. Summaries of key systemic management process and program challenges that need to be addressed follow.

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### **Systemic Management Challenges**

- DOD continues to struggle to overcome the many problems brought about by decades of neglect and to fully institute sound financial management practices. These problems range from being unable to properly account for billions of dollars in assets to being unable to produce reliable and timely information needed to make sound resource decisions.
- Information management and technology issues are key DOD management challenges. A primary short-term concern centers on the implementation of the Year 2000 conversions of date-sensitive information on DOD's computer systems. Also, information security for computer systems poses concerns, since malicious attacks on these systems are an increasing threat to our nation's security.

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## **Overview**

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- Effectively managing the weapon systems acquisition process continues to be a concern for DOD. Although DOD has increased its procurement budget, it consistently pays more and takes longer than planned to develop systems that do not perform as anticipated.
  - DOD spends over \$100 billion a year contracting for goods and services. Over the last few years, DOD has made several broad-based changes to its acquisition and contracting processes to improve DOD-contractor relationships and rules. DOD has given attention to acquisition reform initiatives, but we continue to identify risks in DOD's contracting activity, including areas such as erroneous, fraudulent, and improper payments to contractors; payment of higher prices for commercial spare parts than necessary; and the award and administration of DOD health care contracts.

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### **Program Management Challenges**

- Although DOD has substantially downsized its force structure over the past 7 to 10 years, it has not reduced operations and support costs commensurately because the services are reluctant to consolidate activities that span service lines and reduce capacity as necessary.

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## Overview

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- DOD's inventory management practices continue to be ineffective and inefficient and are not well-suited to meet DOD's new missions and warfighting strategies. As a result, DOD spends more than necessary to procure inventory, yet items are not available when needed.
  - DOD's personnel programs to recruit, train, and retain a high-quality active-duty enlisted workforce have not received the management attention needed to ensure their successful operation. The military services recruit tens of thousands of new enlistees each year who fail to complete their contracts.

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## Progress and Next Steps

To address the management and performance problems we have cited, DOD has taken actions in the high risk and other areas and has made progress in improving some of them. DOD has had some success in addressing its inventory management problems, is working to reform its weapon systems acquisition process, and has recognized the need for infrastructure reductions. Although DOD's past and current efforts have resulted in progress in improving its operations, persistent and long-standing problems still exist. Overcoming these challenges requires DOD to

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## Overview

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address the underlying causes of these problems, such as cultural barriers and service parochialism that limit opportunities for change and the lack of clear, results-oriented goals and performance measures, in some cases.

To address these problems, DOD must have an effective overall strategic plan for the agency and individual implementation plans for each level of the organization that, among other things, include goals, performance measures, and time frames for completing corrective actions. The Government Performance and Results Act of 1993 provides the framework for resolving high risk and other programs and for providing greater accountability in DOD's programs and operations. DOD, however, has not fully embraced the underlying principles in the Results Act.

Our review of DOD's strategic plan and its February 1998 performance plan identified weaknesses in (1) establishing results-oriented performance goals with explicit strategies and time frames for achieving them and (2) addressing what DOD has done or plans to do to resolve its persistent management problems. In our opinion, DOD needs to work closely with the

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**Overview**

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Congress now to develop performance goals and measures. Addressing these areas would provide congressional decisionmakers and DOD the information necessary to ensure that DOD's plans are well thought out for resolving ongoing problems, achieving its goals and objectives, and becoming more results oriented, as expected by the Results Act.

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## Major Performance and Management Issues

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To provide for national security, DOD has a budget that exceeds \$250 billion, which is 15 percent of the federal budget and an estimated 3.2 percent of the U.S. gross domestic product. DOD maintains a force of 1.4 million active duty military personnel, 886,000 military reserve personnel, and 770,000 civilian personnel. In addition to the Army, the Navy, the Air Force, the Marine Corps, the Office of the Secretary of Defense, and the Joint Chiefs of Staff, DOD has 24 defense agencies such as the Defense Logistics Agency and the Defense Special Weapons Agency. With 10 active Army divisions, 3 Marine expeditionary forces, 13 active Air Force fighter wings, 202 bombers, 11 active aircraft carriers, 10 active naval air wings, 12 amphibious ready groups, 73 attack submarines, 128 surface combatant ships, and reserve units and other equipment, and with 200,000 of its troops overseas, DOD maintains worldwide influence.

This report summarizes our recent findings and recommendations to address the challenges DOD faces. These challenges can be grouped into two categories: (1) systemic problems with management processes related to plans, finances, information, acquisition, and contracts and (2) specific

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**Major Performance and Management  
Issues**

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problems related to infrastructure, inventory, and personnel programs. This report also indicates, where applicable, how DOD has responded to recommendations in the Secretary of Defense's November 1997 Defense Reform Initiative (DRI) Report. The Defense Reform Initiative, intended to improve business practices throughout DOD, complements the National Partnership for Reinventing Government.<sup>1</sup>

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**Systemic  
Management  
Challenges**

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**Serious Financial  
Management  
Weaknesses Persist**

Long-standing weaknesses in DOD's financial management operations continue to result in wasted resources, to undermine DOD's ability to manage an estimated \$250 billion budget and \$1 trillion in assets, and to limit the reliability of the financial information provided to the Congress. Since 1995, we have monitored DOD's efforts as it has struggled to resolve the many problems brought about by decades of neglect and

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<sup>1</sup>The National Partnership for Reinventing Government (formerly the National Performance Review) was created by President Clinton in March 1993 to reform the way the federal government works. Its mission is to create a government that works better, costs less, and gets results that Americans care about.

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**Major Performance and Management  
Issues**

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inability to fully institute sound financial management practices. The most recent audits of DOD's financial statements—for fiscal year 1997—resulted in the identification of the following serious deficiencies across the full spectrum of DOD's recordkeeping and control systems.

- DOD has not properly accounted for and reported billions of dollars of property, equipment, inventory, and supplies. Auditors found material weaknesses in the systems and processes DOD relied on to maintain accountability and to control virtually every category of physical assets, including military equipment; general property, plant, and equipment; government-furnished property held by contractors; and inventories. For example, recorded information on the number and location of several military equipment items—such as F-4 engines and service craft—was not reliable, on-hand quantities of inventories differed by 23 percent from inventory records at selected major storage locations, and over \$9 billion in known military operating materials and supplies were not reported. These weaknesses impair DOD's ability to (1) know the location and condition of all its assets, including those used for deployment; (2) safeguard assets

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**Major Performance and Management  
Issues**

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from physical deterioration, theft, or loss; (3) prevent the purchase of assets already on hand; and (4) determine the full costs of the programs that use these assets.

- DOD has not estimated and reported on material environmental and disposal liabilities. While DOD reported nearly \$40 billion in estimated environmental cleanup and disposal liabilities for fiscal year 1997, its reports excluded costs associated with military weapon systems or training ranges—these undisclosed liabilities are likely to be an additional tens of billions of dollars.
- DOD has not determined its liability associated with the future cost of post-retirement health benefits for military employees. DOD used unaudited budget information, instead of the required actual cost data, to calculate its reported \$218 billion estimated liability. In addition, DOD did not accumulate current or complete historical claims data to support its calculation. These problems significantly impair DOD's ability to determine the full cost of its current operations or the extent of its actual liabilities.
- DOD has not accurately reported the net costs of its operations and has acknowledged its fundamental problems in accumulating reliable cost information. For example, DOD's

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**Major Performance and Management  
Issues**

- 1998 Annual Report to the President and the Congress** cited the lack of a widespread, robust cost-accounting system as the single largest impediment to controlling and managing weapon system life cycle costs.
- DOD has not properly accounted for billions of dollars of basic transactions. For example, DOD was unable to reconcile at least \$4 billion in differences between checks issued by DOD and reported to the Department of the Treasury. In addition, DOD reported an estimated \$22 billion in disbursements that it was unable to match with corresponding obligations. Until these problems are corrected, DOD's status of funds reports do not properly reflect all transactions. As we recently reported, Navy records show that as of September 30, 1997, obligations for 9 canceled and 20 expired appropriations may have exceeded the available budget authority by a total of \$290 million.
  - DOD has not ensured that all disbursements were properly recorded and reconciled. Over the years, we and DOD auditors have reported that DOD's payment processes and systems have serious internal control weaknesses that have resulted in numerous erroneous and in some cases fraudulent payments. For example, we recently reported that weak controls led to two fraud cases involving

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**Major Performance and Management  
Issues**

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nearly \$1 million in embezzled Air Force vendor payments and that similar control weaknesses continue to leave Air Force funds vulnerable to additional fraudulent and improper vendor payments.

In addition, to achieve the wide-ranging reforms necessary to address its long-standing financial management deficiencies, we have made numerous recommendations to DOD regarding its need to upgrade the skills of its financial personnel and successfully overcome serious design flaws in its financial systems. Until DOD deals with these two key issues, resolution of its financial management problems is unlikely.

Fixing its financial management problems represents a major challenge because of the size and complexity of DOD's operations and the discipline needed to comply with existing and new, more comprehensive accounting and reporting requirements. DOD's vast financial operations involve about 32,000 financial management personnel. Our survey of over 1,400 key DOD financial managers—individuals often serving in comptroller, deputy comptroller, or budget officer positions—showed that over half (53 percent) had received no financial or

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**Major Performance and Management Issues**

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accounting-related training during 1995 and 1996. These personnel will be challenged to lead DOD's efforts to produce reliable financial data that build upon existing requirements to incorporate recent, more comprehensive accounting standards and federal financial management systems requirements throughout a large and complex organization with acknowledged difficult financial deficiencies.

Until DOD has developed integrated financial management systems, its operations will continue to be burdened with costly, error-prone systems without financial controls to ensure that DOD's assets are safeguarded, its resources appropriately accounted for, or the cost of its activities are accurately measured. Concerns continue over whether DOD (1) has comprehensively identified all the systems it relies on to carry out its financial management operations; (2) corrected weaknesses that would allow both hackers and hundreds of thousands of legitimate users with valid access privileges to modify, steal, inappropriately disclose, and destroy sensitive DOD data; and (3) effectively documented how it conducts its financial management operations now and plans to in the future. Effectively documenting the Department's concept of its

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**Major Performance and Management  
Issues**

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financial operations is a particularly critical step because of the organizational complexity of DOD's financial management activities.

Given the seriousness and long-standing nature of these weaknesses in DOD's financial management operations, we are continuing to monitor this area as part of our high-risk program. Taken together, the material deficiencies in DOD's financial operations represent the single largest obstacle that must be effectively addressed to obtain an unqualified opinion on the entire U.S. government's consolidated financial statements. These weaknesses must be effectively addressed if DOD is to put into place the disciplined financial practices needed to produce credible financial information not only for financial statements but also for support of operational and budgetary decisionmaking and maintaining effective accountability over DOD's vast resources.

DOD has many well-intentioned planned and ongoing financial management reform and improvement efforts. DOD is developing a detailed action plan, in collaboration with the Office of Management and Budget, GAO, and the DOD audit community, to identify

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**Major Performance and Management Issues**

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short-term initiatives to address the Department's financial reporting deficiencies. Furthermore, the National Defense Authorization Act of 1998 requires DOD to develop a broad-based plan for improving its financial management operations and specified a number of financial management areas that DOD was to address. In response, in late October 1998, DOD issued its first Biennial Financial Management Improvement Plan.

In presenting the Biennial Plan, the Secretary of Defense stated that it included almost all aspects of financial management in the Department and established the Department's strategy for managing its financial management operations. The plan sets out the Department's first-ever attempt to describe the overall concept of its future financial management operations. The plan is intended to encompass both DOD's financial systems and the program feeder systems that originate and provide an estimated 80 percent of the data processed in the Department's financial systems. While DOD's plan represents an important step in improving the Department's financial management operations, the plan needs to be supplemented with additional elements in order to put in place the structure needed to

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**Major Performance and Management  
Issues**

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address all of the needed aspects of long-term financial management performance improvement.

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<b>Information Management and Technology Issues Pose Major Concerns</b>	DOD relies extensively on computer systems to carry out its operations related to intelligence, surveillance, and security; sophisticated weaponry; and routine business and financial management functions. This reliance will only grow as the Department moves to modernize and respond to technological advances that are changing the traditional concepts of warfighting through improved intelligence and improved command and control. Maintaining and modernizing this support in an efficient and secure manner across a department as large and diverse as DOD is an enormous challenge.
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DOD faces a number of very serious management challenges to ensure that

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**Major Performance and Management  
Issues**

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technology-driven processes and business systems provide an adequate level of service and an appropriate rate of return on investments. The most immediate challenge facing the Department is ensuring that its key mission and business functions continue to operate after the year 2000. Other issues, while not tied to immovable deadlines, are also important to the Department's ability to provide cost-effective, accurate information and services. These issues involve information security and management of DOD's information technology investment process.

**Progress on Year 2000  
Conversion Is Slow**

The Department of Defense relies on computer systems for virtually all its operations, including strategic and tactical operations, sophisticated weaponry, intelligence, surveillance and security efforts, and more routine business functions such as payroll and logistics. The Year 2000 problem results from the inability of computer systems to correctly interpret recorded dates when only two digits are used to indicate the year, such as "98" for "1998." Federal agencies are making significant efforts to correct the problems, and, in February 1997, we designated the Year 2000 conversion problem as a governmentwide high-risk area. For an

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**Major Performance and Management  
Issues**

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organization as large as DOD—with over 1.5 million computers, 28,000 systems, and 10,000 networks—addressing the Year 2000 problem is a formidable task.

DOD has an enormous effort underway to remediate its mission-critical systems and ensure that its key operational missions will continue to function after the century date change. That effort is at risk. We have issued 10 reports and the DOD IG and audit agencies have issued 130 reports that continue to question the Department's management of its Year 2000 program. For example:

- The Department lacks reliable, timely information on program status.
- Component reports on systems compliance are often inaccurate.
- Contingency plans (developed in the event of system failure) are frequently not executable.
- Inconsistent guidance has led to false starts and uncoordinated efforts.

In order to address these issues, we recommended in April 1998 that the Department establish a strong department-level program office to oversee the Year 2000 program, clearly define criteria for prioritizing systems for repair, and

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**Major Performance and Management Issues**

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establish better reporting mechanisms.<sup>2</sup> Our concerns about the Department's ability to meet its critical operational missions led to a requirement in the House Conference Report accompanying the current fiscal year appropriations (H. Rept. 105-746) that DOD—as part of its training exercises program—develop a plan for evaluating Year 2000 compliance in a variety of training exercises. DOD is to

"evaluate, in an operational environment, the extent to which information technology and national security systems involved in those exercises will successfully operate during the actual year 2000, including the ability of those systems to access and transmit information from point of origin to point of termination."

Collectively, the Department's weaknesses in developing a strong management process seriously endangers its chances of successfully meeting the Year 2000 deadline and meeting the requirements detailed previously. The Department needs to improve its management oversight to minimize the risk of failure to its mission-critical systems and the operations they support.

To its credit, DOD's senior management has concurred with all of our recommendations

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<sup>2</sup>Defense Computers: Year 2000 Computer Problems Threaten DOD Operations (GAO/AIMD-98-72, Apr. 30, 1998).

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**Major Performance and Management Issues**

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and has taken an increasingly active, highly visible interest in taking corrective action. The Department has been similarly responsive to the DOD IG recommendations. The senior management team—led by the Deputy Secretary—meets on a regular basis to assess program direction and take action based on that assessment.

Nevertheless, the Department remains behind schedule in completing its systems remediation and is still grappling with the program management issues described above. As a result, the Office of Management and Budget (OMB), in its November 15, 1998, report on federal agencies' progress on Year 2000 conversion, has placed the Department on its "Tier 1" list—those agencies "where there is insufficient evidence of adequate progress."

**Ensuring Needed Capabilities Requires Effective Management of Information Technology Projects**

To promote improvements in the selection and control of information technology projects, the Clinger-Cohen Act of 1996 requires federal agencies to have processes and information in place to help ensure that such projects are (1) being implemented at acceptable costs, within reasonable and expected time frames and (2) contributing to tangible, observable improvements in mission performance. DOD has taken steps to

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**Major Performance and Management  
Issues**

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implement these requirements. However, it faces a major challenge in implementing real change in its current organizational structure and culture, which impedes oversight and coordination of information resources from a Departmentwide perspective. Accordingly, we are continuing to designate DOD's information technology project management efforts as high risk. In previous reports, these efforts were referred to as the "Corporate Information Management Initiative," a term that we are discontinuing because it is no longer widely used in DOD.

A prime example of DOD's poor management of information technology is its \$18-billion system migration effort to replace almost 2,000 duplicative and inefficient systems throughout the Department. One functional area of the migration effort, which we reported on in 1996, spent over \$700 million pursuing a substantially flawed effort—which was later abandoned—without rigorous Department-level oversight. In October 1997, we reported that such management problems persisted and that the Department had little assurance that the migration systems being developed would help achieve DOD's technology goals.

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**Major Performance and Management  
Issues**

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Effective information technology project planning and oversight are especially important as DOD moves to coordinate its thousands of decentralized command, control, communications, intelligence, surveillance, and reconnaissance systems in order to ensure information superiority over our nation's enemies. To this end, we made a number of recommendations that would establish and enforce processes to thoroughly examine alternatives and develop business cases before investing in migration systems. Further, we recommended that system investments be consistent with the Department's technical standards and that controls and performance measures be established to allow management "visibility" over system development efforts. The Department generally agreed with these recommendations and is now finalizing a plan that will show how it intends to meet with the requirements of the Clinger-Cohen Act.

**Information Security Is a Major Concern**

Securing DOD's vast array of networked computers is a major challenge. Defense's computer systems are particularly susceptible to attack through connections on the Internet, which Defense uses to enhance communication and information sharing. In May 1996, we reported that attacks on

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**Major Performance and Management  
Issues**

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Defense computer systems were a serious and growing threat.<sup>3</sup> The exact number of attacks could not be readily determined because tests showed that only a small portion were actually detected and reported. However, the Defense Information Systems Agency estimated that attacks numbered in the hundreds of thousands per year and were successful 65 percent of the time and that the number of attacks was doubling each year. At a minimum, these attacks are a multimillion-dollar nuisance to DOD. At worst, they are a serious threat to national security.

According to Defense officials, attackers have obtained and corrupted sensitive information: they have stolen, modified, and destroyed both data and software. They have installed unwanted files and "back doors" that circumvent normal system protection and allow attackers unauthorized future access. They have shut down and crashed entire systems and networks, denying service to users who depend on automated systems to help meet critical missions. Numerous DOD functions have been adversely affected, including weapons and supercomputer research, logistics, finance,

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<sup>3</sup>Information Security: Computer Attacks at Department of Defense Pose Increasing Risks (GAO/AIMD-96-84, May 22, 1996).

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**Major Performance and Management  
Issues**

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procurement, personnel management, military health, and payroll. In March 1998, DOD announced that it had recently identified a new series of organized intrusions, indicating that such events continue to be a problem.

The same weaknesses that allow attacks from outsiders could also be exploited by authorized users to commit fraud or other improper or malicious acts. In fact, knowledgeable insiders with malicious intentions can be a more serious threat to many operations, since they are more likely to know of system weaknesses and of ways to disguise inappropriate actions.

Audit reports have identified a broad array of problems. One of the most fundamental issues, which we reported on in August 1998, is that DOD has not completed development of an architecture, or blueprint, for its command, control, and communications systems.<sup>4</sup> Without such an architecture, DOD will find it difficult to ensure that these systems, which are essential to DOD's long-term plans for ensuring information superiority, are adequately protected. Other reports have identified specific control

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<sup>4</sup>Defense Information Superiority: Progress Made, but Significant Challenges Remain (GAO/NSIAD/AIMD-98-257, Aug. 31, 1998).

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**Major Performance and Management  
Issues**

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weaknesses in existing systems that increase the risks of damage from intrusions as well as from malicious acts and inadvertent mistakes by authorized users. For example, in April 1998, we testified that, based on our fiscal year 1997 financial statement audit work, DOD's computer controls did not provide adequate protection of significant financial applications involving personnel, payroll, disbursements, and inventory information.<sup>5</sup> In September 1997, we reported that DOD had not adequately (1) controlled the ability of computer programmers to make changes to systems supporting the Military Retirement Trust Fund, (2) controlled access to sensitive information on pension fund participants, or (3) developed or tested a comprehensive disaster recovery plan for the sites that process Fund data. These weaknesses expose sensitive data maintained by these systems to unnecessary risk of disclosure, and should a disaster occur, there is no assurance that the operations supported by these facilities could be restored in a timely

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<sup>5</sup>Department of Defense: Financial Audits Highlight Continuing Challenges to Correct Serious Financial Management Problems (GAO/T-AIMD/NSIAD-98-158, Apr. 16, 1998).

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**Major Performance and Management  
Issues**

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manner.<sup>6</sup> Similarly, in October 1997, the DOD IG reported serious authentication and access control weaknesses associated with a system that in fiscal year 1996 maintained contract administration and payment data on a reported 387,000 contracts valued at over \$810 billion.<sup>7</sup> Weaknesses in other areas, too sensitive to be reported publicly, pose risks of more serious consequences.

Reports to DOD have included numerous recommendations related to specific control weaknesses as well as the need to establish a defined systems architecture and a comprehensive program for improved information security management. DOD is taking a variety of steps to address these problems and is establishing the Departmentwide Information Assurance Program to improve and better coordinate the information security-related activities of the military services and other DOD components. A sustained effort will be needed to ensure that these efforts are successful.

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<sup>6</sup>Financial Management: Review of the Military Retirement Trust Fund's Actuarial Model and Related Computer Controls  
(GAO/AIMD-97-128, Sept. 9, 1997).

<sup>7</sup>General and Application Controls Over the Mechanization of Contract Administration Services System, DODIG, Report Number 98-007, Oct. 9, 1997.

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**Major Performance and Management  
Issues**

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<b>Key Contact</b>	<b>Jack L. Brock, Jr., Director Governmentwide and Defense Information Systems Accounting and Information Management Division (202) 512-6240 brockj.aimd@gao.gov</b>
<b>Weapon Systems Acquisition Problems Persist</b>	DOD spends about \$85 billion annually to research, develop, and acquire weapon systems. Although DOD has many acquisition reform initiatives in process, pervasive problems persist regarding (1) questionable requirements and solutions that are not the most cost-effective available; (2) unrealistic cost, schedule, and performance estimates; (3) questionable program affordability; and (4) the use of high-risk acquisition strategies. We have reported that weapon systems acquisition is a high-risk area, and it remains on our high-risk list.
<b>Requirements Are Questionable and Not Cost-Effective</b>	DOD acquisition policies require analyses of missions, mission needs, costs, and weapon system alternatives to ensure that cost-effective solutions are matched to valid needs before substantial resources are committed to a particular program. An important objective is to minimize overlap and duplication among weapon systems that

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**Major Performance and Management Issues**

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perform the same or similar missions. We have found that while the services conduct considerable analyses in justifying major acquisitions, these analyses can be narrowly focused, without full consideration of alternative solutions, including the joint acquisition of systems with the other services. In addition, because DOD does not routinely develop information on joint mission needs and aggregate capabilities, it has little assurance that decisions to buy, modify, or retire systems are sound. We continue to uncover and report on questionable mission needs and on systems that are not the most cost-effective solution to a mission need. For example:

- DOD could have met its strategic airlift requirements and achieved a significant life cycle cost savings by buying fewer C-17s than planned;
- by increasing the total annual buy of Blackhawk helicopter derivatives for Marine Corps and other requirements, DOD could save over \$700 million in research and development and procurement costs;
- the Army's procurement quantities for the Longbow Hellfire missile were significantly overstated;
- DOD's plan to lease satellite communications from commercial providers rather than

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**Major Performance and Management  
Issues**

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- replace the Defense Satellite Communications System in 2003 may not be cost-effective; and
- the Air Force and the Navy used inconsistent data to calculate the number of joint aircraft training systems needed for primary pilot training.

**Unrealistic Cost,  
Schedule, and  
Performance Estimates**

In our high-risk reports, we noted that the desire of program sponsors to keep cost estimates as low as possible and to present attractive milestone schedules had encouraged the use of unreasonable assumptions about the pace and magnitude of the technical effort, material costs, production rates, savings from competition, and other factors. We continue to find and report on overly optimistic program projections and excessive risks in light of the current budget and security environment. For example:

- In restructuring the F-22 program, it is doubtful that the Air Force can offset the \$13-billion projected increase in production costs because many of the cost-cutting initiatives it identified were not well defined;
- F/A-18E/F development and production costs are likely to be greater than projected by the Navy;

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**Major Performance and Management  
Issues**

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- the Navy Area Theater Ballistic Missile Defense Program has experienced schedule slips, and further slips are possible because of its highly optimistic schedule for conducting operational tests;
- despite many years in development, the V-22 had yet to achieve program stability in terms of cost or aircraft design;
- B-2 costs may be understated if the Air Force plans to correct deficiencies identified during testing, including the acquisition of shelters for use in forward operating locations to preserve the features that make the aircraft difficult to detect, and to provide the originally planned performance; and
- the projected cost of the Navy's New Attack Submarine has grown and will increase further due to the level of technical and schedule risks in the program.

**Questionable Program  
Affordability**

Each year for the past several years, we have reported that DOD's Future Years Defense Program could not be executed with available funds. We concluded that DOD's tendency to overestimate the funding that would be available in the future, coupled with the tendency to underestimate program costs, had resulted in the advent of more programs than could be executed as planned. When DOD finally faced funding reality, it often reduced, delayed, and/or

stretched out programs, substantially increasing the cost of each system. In addition to the higher unit costs caused by program stretchouts, another affordability issue is DOD's potential inability to address valid requirements when available resources are consumed on questionable priorities. We continue to find and report on numerous problems with DOD's budgeting and spending practices for weapon system acquisitions.

For example:

- In analyzing the 1998 Future Years Defense Program, we found that funding for infrastructure activities was projected to increase, while procurement funding was projected to be lower than anticipated. Nonetheless, DOD is pursuing a number of major system acquisition programs on the assumption that infrastructure savings will materialize.
- DOD's ambitious aircraft modernization program is neither realistic nor justified given current and projected budgetary constraints.
- Despite the current budgetary constraints, DOD plans to double its spending on guided weapons over the next 10 years.
- Although the Navy has not yet explained how they relate to current national defense strategy, its plans to modernize its surface

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**Major Performance and Management  
Issues**

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combatant force hinge on optimistic budget assumptions.

**High-Risk Acquisition Strategies**

In our previous high-risk reports, we stated that high-risk acquisition strategies, such as the acquisition of weapons based on optimistic assumptions about the maturity and availability of enabling technologies, were being based on the need to meet the threat and to reduce acquisition costs. We have also reported on the high-risk practice of beginning production of a weapon system before development, testing, and evaluation are complete. When a highly concurrent strategy is used, critical decisions are made without adequate information about a weapon's demonstrated operational effectiveness, reliability, logistic supportability, and readiness for production. Also, rushing into production before critical tests have been successfully completed has resulted in the purchase of systems that do not perform as intended. These premature purchases have resulted in lower-than-expected availability of systems for operations and have quite often led to expensive modifications. In today's national security environment, proceeding with low-rate production without demonstrating that the system will work as intended should rarely be necessary. Nevertheless, DOD still

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**Major Performance and Management  
Issues**

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begins production of many major and nonmajor weapons without first providing that the systems will meet critical performance requirements, as indicated in the following examples:

- DOD's approval of the Joint Surveillance Target Attack Radar System's full-rate production was premature and risky because the system's operational effectiveness and suitability for combat were not yet demonstrated and plans to address deficiencies and reduce program costs were not completed;
- the plan to develop and deploy a National Missile Defense System in only 6 years is fraught with risks, including possible schedule slippages and technical problems stemming from limited testing;
- the Army's acquisition plan for the Theater High Altitude Area Defense Program calls for significant production of deployment hardware almost 2 years before beginning independent operational testing to assess the system's operational effectiveness;
- although already in low-rate production, serious deficiencies found in developmental testing raise questions about the F/A-18E/F's operational performance; and

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**Major Performance and Management Issues**

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- testing delays are expected to limit the information available to support the Air Force's plans to start F-22 production.

Acquisition Reform and the Prospects for Change

Acquisition reforms under way by DOD have a sound basis and have the potential for improving the outcomes of weapons systems. Commercial practices for gaining knowledge and assessing risks can also help produce better outcomes on DOD acquisitions. DOD's leadership is genuinely committed to making a difference in the status quo. However, lasting improvements in the outcomes of acquisition programs will not be realized unless the incentives that drive behaviors in the acquisition process are changed.

The competition for funding when a program is launched encourages aspiring DOD program managers to include performance features and design characteristics that rely on immature technologies. In this environment, risks in the form of ambitious technology advancements and tight cost and schedule estimates are accepted as necessary for a successful launch. Problems or indications that the estimates are decaying do not help sustain programs in later years, and thus admission of them is implicitly discouraged. There are few

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**Major Performance and Management  
Issues**

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rewards for discovering and recognizing potential problems early in program development.

Acquisition reforms and commercial practices can help produce better outcomes on DOD acquisitions if they help a program succeed in its environment. For lasting reform, the incentives of the weapon acquisition process must be realigned with desired program outcomes. Changing these incentives—that is, redefining program success—will take the efforts of the Congress as well as DOD and the services. A major step in this direction is redefining the point for launching programs as the point at which technology development ends and product development begins. Making the launch point later in the acquisition cycle is consistent with the practices of leading commercial firms and can relieve some of the pressure for programs to overpromise on performance and resource estimates. Once a program is under way, the Congress and DOD must make it acceptable for program managers to identify unknowns as high risks so that they can be aggressively worked on earlier in development.

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**Major Performance and Management  
Issues**

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<b>Improved Processes and Controls Key to Reducing Contract Risk</b>	<p>DOD spends in excess of \$100 billion a year contracting for goods and services. Since 1995, we have reported DOD contract management as a high-risk area, and it remains on our list of high-risk areas. Over the last few years, several broad-based changes have been made to DOD acquisition and contracting processes to improve the way DOD relates to its contractors and the rules governing their relationships. And the changes are by no means complete. Acquisition reform, with its emphasis on widespread reengineering of fundamental processes, continues to receive attention at the highest levels in DOD.</p> <p>Our work, and that of the DOD IG, continue to identify risks in DOD contracting activity. For example, DOD continues to experience problems with erroneous, fraudulent, and improper payments to its contractors; paying higher prices for commercial spare parts</p>

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**Major Performance and Management Issues**

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than necessary; and awarding and administering its health care contracts.

**Fixing DOD's High-Risk Payment Systems Is Imperative**

The need for DOD to achieve effective control over its payment process remains an imperative. If it does not, DOD continues to risk erroneously paying contractors millions of dollars and perpetuating other financial management and accounting control problems. While DOD is taking steps to improve its payment process and controls, it will likely take an extended period of time to get its payment problems under control.

DOD receives about a billion dollars a year in checks from defense contractors. While some of these are the result of contract changes that result in reduced prices, others represent errors by DOD's payment center. DOD is conducting a demonstration program to evaluate the feasibility of using private contractors to identify overpayments made to vendors. Through this process, known as recovery auditing, the contractor has identified about \$19 million in overpayments. DOD is examining opportunities to expand the use of recovery auditing, which we believe offers potential to identify overpayments.

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**Major Performance and Management  
Issues**

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In addition to erroneous payments, weak systems and internal controls can leave DOD vulnerable to fraud and improper payments. Our September 1998 report discussed two cases of fraud that resulted from a weak internal control environment.<sup>8</sup> The lack of segregation of duties and other control weaknesses, such as weak controls over remittance addresses, created an environment in which employees were given broad authority and the capability, without compensating controls, to perform functions that should have been performed by separate individuals under proper supervision. For example, as of mid-June 1998, over 1,800 Defense Finance and Accounting Service (DFAS) and Air Force employees had a level of access to the vendor payment system that allowed them to enter contract and payment information and remittance addresses needed to create payment vouchers. No one individual should control all key aspects of a transaction or event without appropriate compensating controls. Moreover, we found that the automated vendor payment system was vulnerable to penetration by unauthorized users due to weaknesses in computer security, including inadequate password controls.

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<sup>8</sup>Financial Management: Improvements Needed in Air Force Vendor Payments Systems and Controls (GAO/AIMD-98-274, Sept. 28, 1998).

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**Major Performance and Management  
Issues**

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Further, DFAS lacked procedures to ensure that it could properly document the date that Air Force vendor invoices were received for payment and that goods and services were received. These are critical dates for ensuring timely vendor payments and the avoidance of interest under the Prompt Payment Act.

In addition, we found that DFAS and the Air Force lacked documentation to determine what payments had been made on two Bolling Air Force Base office automation contracts (let in 1986 and 1992). Further, due to incomplete and inaccurate property records, we were unable to determine whether the Air Force received the goods and services paid for under these contracts.

**Challenges in Adjusting  
to Commercial Contract  
Pricing Practices**

In recent years, DOD has significantly changed the way it acquires goods and services by removing what were considered barriers to efficient and effective use of the commercial marketplace. A major focus of these changes is the adoption of commercial buying practices. For example, for an increasing number of contracts for sole-source spare parts, DOD is transitioning from a cost-based pricing environment, in which contractor costs are the basis to negotiate prices, to a market-based or

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**Major Performance and Management Issues**

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commercial pricing environment in which factors other than cost, such as pricing data, are the principal means used to determine the reasonableness of prices. While the level of commercial contracting remains relatively small compared to total DOD procurement, it is likely to increase substantially in the coming years.

We and the DOD IG have found that DOD needs to strengthen the quality of its price analyses. For example, the IG found that DOD had not formulated good procurement and management strategies for commercial parts in the acquisition reform environment. As a result, DOD was paying higher prices for commercial spare parts than necessary. Our work also identified cases in which limited analysis of commercially offered prices resulted in significantly higher prices than previously paid. DOD is taking steps to improve its workforce training in commercial buying and pricing. How well DOD's shrinking acquisition workforce will adjust to the increasing commercial pricing environment remains to be seen; it continues to be an area of high contract risk.

Contracts for DOD Health Care Management Face Risks

DOD's implementation of health care management programs, particularly the TRICARE Program, further illustrates DOD's

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**Major Performance and Management  
Issues**

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difficulty in managing contracts. TRICARE was established during a period of military downsizing and budget concerns to contain costs and maintain access to and the quality of health care for DOD's 8.2 million beneficiaries. However, TRICARE's implementation, entailing the award of seven competitively bid, 5-year contracts, has been fraught with problems. All seven contracts, totaling about \$15 billion, were protested. As a result, DOD and the competitors incurred added costs, and the program was significantly delayed. Three of the protests were sustained, resulting in further delays.

Also, we identified problems with the change order process, including the protracted settlement of the orders. As of November 1998, over 350 change orders to the TRICARE contracts had not been settled. As a result of this experience, DOD set out to develop and introduce during next year's new round of contracts a more simplified procurement approach. The approach is to be less prescriptive than the current contracts, relying on bidders, for example, to propose their most cost-effective, proven care practices. But, because the new solicitation approach will be less prescriptive, DOD's evaluation of proposals will be made more subjective and perhaps

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**Major Performance and Management  
Issues**

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more difficult. Such challenges have prompted DOD instead to seek 2-year extensions of the current contracts while it continues to refine its new approach.

Whether DOD can successfully develop and launch the new method, and whether what it designs will reduce the current volume of contract changes or control health care costs remains to be seen.

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**Major Performance and Management  
Issues**

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**Program  
Management  
Challenges**

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<b>Defense Infrastructure Can Be Better Streamlined</b>	DOD officials have cited the importance of using resources for the highest priority operational and investment needs rather than maintaining unneeded property, facilities, and overhead. However, DOD has found that infrastructure reductions are difficult and painful because achieving significant cost savings requires up-front investments, the closure of installations, and
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**Major Performance and Management  
Issues**

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the elimination of military and civilian jobs. DOD's ability to reduce infrastructure has been affected by service parochialism, a cultural resistance to change, and congressional and public concern about the effects and impartiality of decisions. For fiscal year 1998, DOD estimated that about \$147 billion, or 58 percent of its budget, would still be needed for infrastructure requirements, which included installation support, training, medical care, logistics, force management, acquisition infrastructure, and personnel. In February 1997, we identified defense infrastructure as a high-risk area, and it remains on our high-risk list.

The Secretary of Defense's November 1997 DRI Report emphasizes the need to reduce excess Cold War infrastructure to free up resources for force modernization. Specific initiatives cited in the report included privatizing military housing and utility systems, emphasizing demolition of excess buildings, consolidating and regionalizing many defense support agencies, and requesting legislative authority to conduct two additional base realignment and closure (BRAC) rounds. The Secretary noted that DOD continued to be weighed down by facilities that are too extensive for its needs, more

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**Major Performance and Management  
Issues**

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expensive than it can afford, and detrimental to the efficiency and effectiveness of the nation's armed forces. Likewise, he noted that DOD must do a better job of managing facility assets on its remaining bases. In responding to section 2824 of the Fiscal Year 1998 Defense Authorization Act, DOD emphasized the problem of continuing excess infrastructure in its April 1998 report to the Congress concerning BRAC issues. More recently, in our November 1998 report on Army industrial facilities, we noted the continuing existence of significant excess capacity in the Army's maintenance depots and manufacturing arsenals.

While the defense reform initiatives are steps in the right direction and have brought high-level attention to the need for infrastructure reductions, collectively they do not provide a comprehensive long-range plan for facilities infrastructure. We have cited the need for such a plan but have noted that DOD's past plans were not focused on long-term comprehensive strategies for facilities revitalization, replacement, and maintenance and were not tied to measurable goals to be accomplished over specified time frames or linked to funding.

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**Major Performance and Management  
Issues**

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The need for improved planning for facilities infrastructure is underscored by the requirements of the Government Performance and Results Act of 1993. Improved infrastructure planning can help agency components and programs to develop outcome-oriented goals and performance measures that are linked to and support agencywide goals.

While we have not completed an in-depth analysis of all the categories of infrastructure, we have identified numerous areas in which infrastructure activities can be eliminated, streamlined, or reengineered to be made more efficient. Significant efficiencies could be achieved in the areas of acquisition infrastructure, central logistics, installation support, central training, force management, and medical facilities and services.

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**Major Performance and Management  
Issues**

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**Inventory  
Management  
Problems Persist in  
DOD**

In 1990, we identified DOD's management of secondary inventories (spare and repair parts, clothing, medical supplies, and other items to support the operating forces) as a high-risk area because levels of inventory were too high and management systems and procedures were ineffective. While some improvements have been made, these general conditions still exist; this area still remains on our high-risk list.

DOD has had inventory management problems for decades. In the short term, DOD still needs to emphasize the efficient operation of its existing inventory systems. In the long term, DOD must establish goals, objectives, and milestones for changing its culture and adopting new management tools and practices. Cultural changes, by their nature, are slowly achieved, and DOD's key initiatives to improving inventory management have progressed slowly. Unless DOD takes more aggressive actions to correct systemic problems, its inventory management problems will continue into the next century.

Adequate inventory oversight has yet to be achieved. In 1995, we reported that DOD's strategic plans for logistics called for improving asset visibility in such areas as

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**Major Performance and Management  
Issues**

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in-transit assets, retail level stocks, and automated systems.<sup>9</sup> DOD was to completely implement asset visibility plans by 1996, later changed that date to 2001, and now will not completely implement its current plan until 2004. The lack of adequate visibility over operating materials and supplies substantially increases the risk that millions of dollars will be spent unnecessarily. For example, the Navy's fiscal year 1996 financial statements did not include information on \$7.8 billion in inventories on board ships and at Marine Corps activities.

DOD has not taken sufficient steps to ensure the accuracy of inventory requirements to preclude the acquisition of unneeded items. For example, in April 1998 we reported that the Navy did not always have valid requirements to support inventory purchases. The Navy could have eliminated about \$13 million of planned program requirements for 68 of 200 items we reviewed because the requirements were also included in the reorder-level requirement. While we could not precisely quantify the overall extent of the problem, this double counting could be indicative of a

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<sup>9</sup>Asset visibility is intended to provide defense personnel with timely and accurate information on the location, movement, status, and identity of units, personnel, equipment, and supplies across all DOD components.

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**Major Performance and Management  
Issues**

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larger problem because the Navy has a total of about \$3.3 billion of planned program requirements that affect purchase decisions. The Navy could also have done a better job of canceling contracts for excess inventory. A major reason for not canceling more purchases was that the Navy adds "protection levels" representing as much as 2 years of usage before considering cancellation, and it cancels only the amount of the purchases that exceeds the protection levels.

The vulnerability of in-transit inventory to waste, fraud, and abuse is another area of concern. In February 1998, we reported that DOD did not have receipts for about 60 percent of its 21 million shipments to end users in fiscal year 1997. Later work shows that, over the last 3 years, the Navy alone reportedly wrote off as lost over \$3 billion in in-transit inventory. The vulnerability to waste, fraud, and abuse also extends to DOD's disposal of surplus property. In October 1997, we reported that DOD destroyed and sold as scrap some usable aircraft parts in new or repairable condition that could have been sold intact at higher than scrap prices. In contrast, in August 1998, we reported that DOD inadvertently sold surplus parts with military technology intact. In these cases,

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**Major Performance and Management Issues**

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management controls were insufficient to preclude these conditions.

**Applying Best Management Practices to Defense Inventory Management**

Recently, the Congress enacted legislation requiring the Defense Logistics Agency (DLA) and the services to develop and submit schedules for implementing best commercial practices in its acquisition and distribution of inventory items. The legislation calls for the implementation of best practice initiatives to be completed within the next 3 years in the case of DLA and 5 years for the services. We are required to examine these schedules and report on the extent to which the services have complied with their legislative mandate and DLA and the services are implementing these initiatives.

DOD recognizes potential opportunities in adopting best practices. The Secretary of Defense's DRI, for example, seeks to reengineer DOD support activities and business practices by incorporating many business practices that private sector companies have used to become leaner, more agile, and highly successful. The initiative calls for adopting modern business practices to achieve world-class standards of performance in DOD operations. The Secretary of Defense stated that reforming DOD support activities is imperative to free

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**Major Performance and Management  
Issues**

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up funds to help pay for high priorities such as weapons modernization.

Since 1991, we have issued 11 reports that identify significant opportunities for DOD to test and adopt, where feasible, best inventory management practices used in the private sector to improve logistics operations and lower costs. These reports have compared DOD and private sector logistics practices for inventory managed by DLA and each of the military departments. The business practices we recommended in our past reports have, for the most part, been used in the private sector to enable customers to order supplies as they are needed and receive them within hours. This practice reduces overall supply system costs, eliminates large inventories, and enables companies to reduce or eliminate the ordering of supplies that may not be needed or become obsolete. To achieve similar inventory reductions, infrastructure savings, and improved customer service, we have recommended that DOD expand its current initiatives to their fullest extent and include tasks such as ordering, storing, and distributing supplies to the customer.

We have also reported that some commercial airlines have cut costs and improved

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**Major Performance and Management Issues**

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customer service by streamlining their overall logistics operations. The most successful improvements took a supply-chain management approach, which included using highly accurate information systems to track and control inventory; employing various methods to speed the flow of parts through the logistics pipeline; shifting certain inventory tasks to suppliers; and having third parties handle parts repair, storage, and distribution functions. Adopting practices similar to these could help DOD's repair pipelines become faster and more responsive to its customers' needs.

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<b>Military Personnel Issues Need Attention</b>	DOD's recruiting and retention of a high-quality work force need top management attention. Our body of work in this area indicates that DOD faces an especially significant challenge in retaining the hundreds of thousands of new recruits it enlists each year. While each new enlistee
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**Major Performance and Management  
Issues**

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signs a contract ranging from 2 to 6 years, most first-term contracts are for 4 years. Despite this contractual obligation, we found that between fiscal year 1982 and 1993, 31.7 percent of all enlistees did not complete their first terms of service: 11 percent of enlistees were separated during their first 6 months and 20.7 percent between their 7th and 48th month. First-term attrition is costly: DOD estimates that the services' recruiting and training investment in each enlistee during the first term is an average of \$35,532. Using DOD's lower recruiting and training cost estimates for fiscal year 1993 (ranging from \$19,143 to \$24,885), we calculated that the services spent \$1.3 billion on the 72,670 enlistees who entered the services in fiscal year 1993 and departed prematurely. Because these enlistees were separated early, the services did not get a full return on their investment.

Reexamining the roles of all persons involved in recruiting and retaining enlistees is in keeping with the intent of the Results Act, which requires agencies to clearly define their missions, to set goals, and to link activities and resources to those goals. Recruiting and retaining well-qualified military personnel are among the goals

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**Major Performance and Management  
Issues**

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included in DOD's strategic plan required under the Act.

In the first of a series of reports on recruiting and attrition, we analyzed the reasons for enlistees' early separation during their first 6 months of service, when most are undergoing or have just finished basic training. During that review, we found that thousands of enlistees were separated because the services had not adequately screened them prior to enlistment. For example, about 83 percent of the 25,000 who entered the services in fiscal year 1994 and were discharged in their first 6 months had been assigned separation codes indicating that they (1) were medically unqualified for military service, (2) had character or behavior disorders, (3) had fraudulently or erroneously entered the military, or (4) failed to meet minimum performance criteria. The services' screening processes for past medical history were particularly lax, and the Navy and the Marine Corps waited until recruits had arrived at basic training before testing them for drugs. Finally, recruiters did not have adequate incentives to ensure that their recruits were qualified.

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**Major Performance and Management  
Issues**

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In a follow-on report, we examined the services' recruiting processes in more detail, including their methods of selecting recruiters, screening recruits and preparing them for basic training, and measuring and rewarding recruiter performance. During this review, we found that the services did not have effective procedures for selecting the best candidates for recruiting duty and that monthly goals created disincentives for recruiters to ensure that all their recruits were fully qualified.

Finally, in a third review, we analyzed why 21 percent of the enlistees who entered the services in fiscal year 1993 were separated early between their 7th and 48th month of service. We found that over 70 percent of the men in this group were separated for misconduct, medical conditions, performance problems, or drug use. Over 71 percent of the women in this group were separated for pregnancy, medical problems, misconduct, performance problems, or parenthood. While the services were concerned about attrition, they had not provided guidance on what actions could be taken to deal with identified problems or what accommodations could be made to retain certain categories of enlistees who might be rehabilitated. Though our analysis

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**Major Performance and Management  
Issues**

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of separation codes provided a rough approximation of reasons for separation, these codes were not sufficient to capture exactly why separations were occurring. Interviews with 254 first-term enlistees showed that underlying quality-of-life issues may lie at the root of many separations. These issues include a perceived erosion of medical and retirement benefits, advancement opportunities, and pay, coupled with long hours and difficult and frequent deployments.

To address these problems, we recommended that DOD and the services (1) resolve problems in their use of separation codes to better analyze attrition; (2) improve their recruiter incentive systems by tying these systems to recruits' successful completion of basic training; (3) improve medical screening of recruits and move all drug testing to the recruit processing stations; (4) identify specific groups of enlistees that might be targeted for remedial action through more counseling, optional testing, alternative job choices, or remedial training; and (5) better use existing quality-of-life surveys to identify what initiatives might be undertaken to reduce the attrition of first-term personnel.

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**Major Performance and Management  
Issues**

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DOD is now responding to all of our recommendations. It has formed a joint service working group to address recommendations in our report on 6-month attrition, which were incorporated into the National Defense Authorization Act for Fiscal Year 1998. DOD has also agreed to prepare a report by October 1999 documenting service initiatives related to the recommendations in our report on 7- to 48-month attrition. Reducing attrition rates will be complex and difficult. However, considering the high cost of recruiting and training the thousands of enlistees who do not complete their first terms of service, the payoff of reducing attrition will be significant, since savings could then be channeled to other defense priorities.

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<b>Addressing the Challenges</b>	To address the management and performance problems we have cited, DOD has taken actions in the high risk and other
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**Major Performance and Management  
Issues**

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areas and has made progress in improving some of them. DOD has had some success in addressing its inventory management problems, is working to reform its weapon system acquisition process, and has recognized the need for infrastructure reductions. For example, in May 1997, the Secretary of Defense issued the Report of the Quadrennial Defense Review (QDR), required by the National Defense Authorization Act for Fiscal Year 1997, which examines America's defense needs from 1997 to 2015, including issuing a blueprint for a strategy-based, balanced, and affordable defense program. In addition, DOD's latest efforts to reform operations and processes are contained in the Secretary's DRI Report, in which DOD proposed to revolutionize its business and support operations by identifying and adopting best business practices from the private sector.

Although DOD's past and current efforts have resulted in progress in improving its operations, persistent and long-standing problems still exist. Overcoming these challenges requires DOD to address the underlying causes of these problems. These causes include (1) cultural barriers and service parochialism that limit opportunities for change; (2) the lack of incentives for

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**Major Performance and Management  
Issues**

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seeking and implementing change; (3) the lack of comprehensive and reliable management data for making decisions and measuring program costs and performance; (4) the lack of clear, results-oriented goals and performance measures, in some cases; and (5) inconsistent management accountability and follow-through.

To address these problems, DOD must have an effective overall strategic plan for the agency and individual implementation plans for each level of the organization that, among other things, include goals, performance measures, and time frames for completing corrective actions; and identify organizations and individuals accountable for accomplishing specific goals. Together with the legislative requirements of the Chief Financial Officers Act, the Paperwork Reduction Act, and the Clinger-Cohen Act, the Results Act provides the framework for resolving high risk and other problems and for providing greater accountability in DOD's programs and operations.

DOD, however, has not fully embraced the underlying principles in the Results Act. The Secretary of Defense has stated that the May 1997 Quadrennial Defense Review will serve as DOD's overall strategic planning document

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**Major Performance and Management  
Issues**

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and is intended to fulfill the requirements of the Results Act. Our review of DOD's strategic plan and its February 1998 performance plan disclosed many areas where improvements could be made. The principal shortcomings in DOD's plan center on weaknesses in (1) establishing results-oriented performance goals with explicit strategies and time frames for achieving them and (2) addressing what DOD has done or plans to do to resolve its persistent management problems. In our opinion, DOD needs to work closely with the Congress now to develop performance goals and measures.

Addressing these areas would provide congressional decisionmakers and DOD the information necessary to ensure that DOD's plans are well thought out for resolving ongoing problems, achieving its goals and objectives, and becoming more results oriented, as expected by the Results Act.

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## Related GAO Products

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### Financial Management

Financial Management: Improvements Needed in Air Force Vendor Payment Systems and Controls (GAO/AIMD-98-274, Sept. 28, 1998).

Financial Management: Training of DOD Financial Managers Could Be Enhanced (GAO/AIMD-98-126, June 24, 1998).

Department of Defense: Financial Audits Highlight Continuing Challenges to Correct Serious Financial Management Problems (GAO/AIMD/NSIAD-98-158, Apr. 16, 1998).

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Financial Management: DOD Inventory of Financial Management Systems Is Incomplete (GAO/AIMD-97-29, Jan. 31, 1997).

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### Information Management and Technology

Information Security: Serious Weaknesses Place Critical Federal Operations and Assets at Risk (GAO/AIMD-98-92, Sept. 23, 1998).

Defense Information Superiority: Progress Made, but Significant Challenges Remain (GAO/NSIAD/AIMD-98-257, Aug. 31, 1998).

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**Defense Computers: Year 2000 Computer Problems Threaten DOD Operations**  
(GAO/AIMD-98-72, Apr. 30, 1998).

**Defense Computers: Air Force Needs to Strengthen Year 2000 Oversight**  
(GAO/AIMD-98-35, Jan. 16, 1998).

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**Weapon Systems  
Acquisition  
Management**

**Future Years Defense Program: Substantial Risks Remain in DOD's 1999-2003 Plan**  
(GAO/NSIAD-98-204, July 31, 1998).

**Navy Aviation: F/A-18E/F Development and Production Issues** (GAO/NSIAD-98-61, Mar. 13, 1998).

**Best Practices: Successful Application to Weapon Acquisitions Requires Changes in DOD's Environment** (GAO/NSIAD-98-56, Feb. 24, 1998).

**National Missile Defense: Schedule and Technical Risks Represent Significant Development Challenges** (GAO/NSIAD-98-28, Dec. 12, 1997).

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**Related GAO Products**

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**Contract Management**

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